

TOWN OF NEWPORT
AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2005

**TOWN OF NEWPORT
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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Town of Newport
226 N. James Street
P.O. Box 3053
Newport, Delaware

We have performed the procedures enumerated below, which were agreed to by Town of Newport and the State of Delaware's Office of the Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer, solely to assist you with respect to determining the Town's compliance with Delaware's applicable laws, regulations, financial reporting and the effectiveness of the internal control structure related to the municipal grant funds received for the year ended June 30, 2005 on Page 5. The Town of Newport's Management is responsible for compliance with those requirements. This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards* (2003) issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants that have been incorporated by *Government Auditing Standards* (2003). The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Document understanding of cash disbursement internal control structure over municipal street aid grant funds from discussion with management and report internal control weaknesses.

FINDING NO. 05-1 - During completion of the Town of Newport's program checklist for the municipal street aid grant, it was noted that their cash internal control structure over municipal street aid has a lack of segregation of duties due to the lack of personnel. The administrative assistant controls cash, writes checks and reconciles the bank accounts. The Town Manager maintains a log of receipts, opens the bank statement and approves all invoices for payment and is one of the two check signers on the checks. Segregation of duties reduces the risk that one person could perpetrate and/or conceal errors in the normal course of his/her duties.

RECOMMENDATION - The Town should segregate duties related to receipts and disbursements among different Town commissioners so that additional controls over the Town's municipal grants can be established.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The existing segregation of duties was put into place in 2003 when the new Town Manager assumed duties. The segregation of duties that are in place follows the recommendation of the Town's auditor, Barbacane & Thornton. No further action is necessary."

To clarify: With respect to the Municipal Street Aid Grant, the Town Manager opens and reviews the Bank Statement, logs in all cash receivables, approves an invoice for payment in a two-step process (first, authorizing for payment, second, authorizing the check issued to the invoice) and matches receivables to deposit slip. The Administrative Assistant, using QuickBooks, reconciles the account, issues checks, and prepares deposit slip. The Court Clerk makes all bank deposits. Checks are signed by the Town Manager and a Commissioner, or, in the absence of the Town Manager, two Commissioners."

2. Complete the State of Delaware Auditor of Accounts municipal grants agreed-upon procedure program to determine the Town's compliance with applicable laws, regulations and financial reports related to municipal grant funds received during the year ended June 30, 2005. Detail any instances of noncompliance.

FINDING NO. 05-2 - During completion of the Town of Newport's program checklist for the municipal street aid grant, it was noted that the Town made one of the loan payments 30 days after the due date. The Town did switch municipal street aid bank accounts during this time, so that the automatic withdrawal from the old account did not occur, which is in noncompliance with the State's regulations over disbursement of its funds [29 Del. C. §6516(d)]. Bills paid out of the municipal street aid account should be recorded and paid within 30 days to avoid possible late charges.

RECOMMENDATION - The Town should continue to ensure that controls are in place so that invoices/bills are paid within 30 days.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"Loan payments were made through automatic withdrawals from the Town's checking account. This was an isolated incident due to the switching of banks and the inability of the bank to make the automatic payment and forward on a timely basis. No further action is necessary."

FINDING NO. 05-3 - During completion of the Town of Newport's program checklist for the municipal street aid grant, it was noted that their financial documents and transactions were administered in accordance with the applicable laws and regulations, and that their financial report was submitted timely to the office of the State Treasurer, but the financial report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The beginning and ending balances were understated by \$ 1,561.01 and \$ 1,561.00, respectively, on the annual report. Expenditures were overstated by \$ 0.1 on the annual report. The accurate preparation of the annual report is an important requirement of the grant.

RECOMMENDATION - The Town should more carefully prepare and review the amounts on the annual report to ensure an accurate presentation. Since this difference comes from prior years, we recommend the Town contact the State Treasurer in order to resolve this problem.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"This error was discovered in a review of records after the change of Town Managers. As noted in the auditor's report, the discovered error was made some years back. The problem was discussed with the State Treasurer's Office, and that Office's recommendation to resolve the error was implemented, as outlined in the memo. No further action is necessary."

FINDING NO. 05-4 - During completion of the Town of Newport's program checklist for the municipal street aid grant, it was noted that \$ 1,561.00 not related to municipal street aid funds were deposited into the municipal street aid bank account in a prior year and these funds have not been transferred out. Only municipal street aid funds should be deposited in the separate bank account as required by [30 Del. C. §5165(c)]. The violation of provisions of the grant could affect future funding to the Town.

RECOMMENDATION - Only municipal street aid funds should be deposited in bank accounts designated as municipal street aid funds. We recommend the Town transfer \$ 1,561.00 to the general fund account.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"The \$ 1,561 represents discretionary legislative funds received by the Town and dedicated to a road project. The funds were mistakenly thought to be of the same category as MSAF and erroneously placed in that account. \$ 1,561 was subsequently transferred out of the MSAF account and into general operating on December 29, 2006 to reimburse the Town for the roads project expenditure."

FINDING NO. 05-5 - During completion of the Town of Newport's program checklist for the municipal street aid grant, we were unable to determine if the bid process was followed in accordance with 29 Del. C. Chapter 69 and 30 Del. C. §5165(b)(3) for eligible street expenditures incurred, due to the lack of documentation retained during a prior Town administration in a prior year. The violation of provisions of the grant could affect future funding to the Town.

RECOMMENDATION - Policies and procedures should be in place to ensure that proper records are retained on all activities of the Town.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"In FY2003, with the change of Town Managers, a consulting engineer was appointed as Town Engineer to ensure compliance with 29 Delaware Code, Chapter 69 and 30 Delaware Code, section 5165(b)(3). Among the Town Engineer's responsibilities: prepare bids, review proposals, assist in selection of contractor, conduct pre-construction meeting, provide on-site inspection, and authorize completeness for Town payment. No further action is necessary."

FINDING NO. 05-6 - During completion of the Town of Newport's program checklist for the Police Pension grant, it was noted that the Town did not submit to the State Board of Pension Trustees by April 1, a listing of retired police officers receiving benefits from the Town as of December 31 of the preceding year, excluding those receiving benefits from the State of Delaware County and Municipal Police Pension Plan as required by the Delaware Code [18 Del. C. §709(b)]. The State Board of Pension Trustees has not requested this information from the Town or provided a format for the Town to submit this information to them. Failure to comply could result in the loss of grant funding.

RECOMMENDATION - The Town should provide mandated information regarding retired police officers receiving benefits to the State Board of Pension Trustees by April 1 of each year that the municipality receives a police pension grant in order to comply with the grants compliance requirements.

TOWN'S PLAN FOR CORRECTIVE ACTION:

"As stated in the finding, the Town will provide information requested by the State of Delaware; however, as of this date, the State Board of Pension Trustee has not requested this information from the Town or provided a format for the Town to submit the information."

3. Note all situations or transactions that could be indicative of fraud, illegal acts, material errors, defalcations, irregularities or gross violations of the grant agreements and abuse or misuse of State funds.

During completion of the program checklist, no fraud, illegal acts and violations of provisions of contracts or grant agreements and no abuse or misuse of state funds were noted.

4. Prepare the Town's Schedule of Municipal Grants received during the year ended June 30, 2005.

See Page 5.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Town's compliance with Delaware's laws and regulations, financial reporting and the effectiveness of the internal control structure related to municipal grant funds. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information of the Town of Newport's Management and Council Members, Department of Homeland Security, Office of the State Treasurer and Office of Auditor of Accounts, and is not intended to be and should not be used by anyone other than those specified parties. However, under 29 Del. C. §10002(d), this report is a public record and its distribution is not limited.

Jefferson, Ulan, Doane & Starnes, P.A.

Georgetown, Delaware
January 24, 2006

**TOWN OF NEWPORT
SCHEDULE OF MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2005**

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<u>Grants</u>	<u>Amounts Received</u>
Municipal Street Aid	\$ 35,783.65
Police Pension	6,988.52
State Aid to Local Law Enforcement	6,315.79
Emergency Illegal Drug Enforcement	4,651.07

See independent accountant's report on applying agreed-upon procedures.